

Message Text

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ACTION EB-08

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TO SECSTATE WASHDC 7204
INFO AMEMBASSY BANGKOK
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AMEMBASSY LA PAZ
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C O N F I D E N T I A L SECTION 1 OF 2 KUALA LUMPUR 8278

STADIS////////////////////////////////////

E. O. 11652: GDS
TAGS: EMIN, ITC, MY
SUBJ: POSSIBLE BILATERAL CONSULATIONS ON TIN

REF: (A) KUALA LUMPUR 0411 (B) LONDON 11143

1. DEPARTMENT WILL RECALL THAT SEVERAL MONTHS AGO GOM MINISTER OF PRIMARY INDUSTRIES, DATUK TAIB HAHMOOD, SUGGESTED THE DESIRABILITY OF KEEPING OPEN A BILATERAL DIALOGUE ON TIN ISSUES(REF A). TAIB SEEMED TO BE SAYING THAT MALAYSIA, AS THE LARGEST TIN PRODUCE AND A RELATIVE MODERATE ON TIN ISSUES, COULD ACT AS A BRIDGE BETWEEN THE US AND OTHER PRODUCER COUNTRIES.

2. EVEN THOUGH TAIB HAS NOW BEEN REPLACED BY PAUL LEONG, FORMERLY DEPUTY MINISTER OF PRIMARY INDUSTRIES, WE WOULD LIKE TO SUGGEST THAT THE DEPARTMENT GIVE CAREFUL CONSIDERATION TO FOLLOWING UP ON TAIB'S SUGGESTION, NOW THAT THE ITC HAS BOTH APPROVED HIGHER FLOOR AND CEILING PRICES(DESPITE OUR OPPOSITION) AND ENDORSED MEASURES BY PRODUCER AND CONSUMER
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COUNTRIES TO "PROMOTE A FURTHER EXPANSION OF THE TIN INDUSTRY."
WE BELIEVE THE LEONG, DESPITE THE NATIONALIST CLOAK HE WEARS ON SOME PUBLIC OCCASIONS, IS PRAGAMTIC AND DEEPLY CONCERNED OVER THE LONG TERM HEALTH OF THE TIN INDUSTRY. MOREOVER, THE GOVERNING NATIONAL FRONT HAS JUST RECEIVED AN IMPRESSIVE NEW MANDATE FROM THE ELECTORATE. IN LOCAL DISCUSSION OF MALAYSI'S TIN INDUSTRY, BOTH IN THE PRESS AND

PRIVATELY, THERE SEEMS TO BE GROWING ACKNOWLEDGMENT THAT THE GOM AND STATE GOVERNMENTS MUST TAKE MEASURES TO STIMULATE PRODUCTION. IDEALLY, BILATERAL DISCUSSIONS MIGHT FOLLOW COMPLETION OF US LEGISLATIVE ACTION ON A BUFFER STOCK CONTRIBUTION AND ON STOCKPILE RELEASES. HOWEVER, IN VIEW OF THE CONTINUING UNCERTAINTY REGARDING CONGRESSIONAL ACTION, THE DEPARTMENT MAY WISH TO CONSIDER EMBARKING ON A BILATERAL DIALOGUE BEFORE SUCH ACTION IS COMPLETED. IN ANY CASE, WE FEEL SUCH DISCUSSIONS WOULD BE USEFUL BEFORE THE NEXT ITC MEETING.

3. WE BELIEVE THAT THE INCREASED MUTUAL UNDERSTANDING THE BILATERAL TALKS WOULD HOPEFULLY GENERATE MIGHT ACTUALLY HEIGHTEN THE PROSPECTS OF INCREASED TIN PRODUCTION IN MALAYSIA. THE GOM SEEMS HONESTLY FRUSTRATED BY THE DIFFICULTIES IT FACES, IN GETTING THE COOPERATION OF STATE GOVERNMENTS (WHICH CONSTITUTIONALLY CONTROL LAND USE) IN OPENING UP NEW LANDS TO TIN MINING. IT APPEARS THAT THE MAJOR OBSTACLE TO INCREASED TIN PRODUCTION IN MALAYSIA IS THE DELAY FACED BY MINERS IN OBTAINING NEW AND RENEWED MINING LEASES FROM THE STATE GOVERNMENTS OF TIN-RICH SELANGOR AND PERAK. THESE DIFFICULTIES ARE EQUALLY SERIOUS FOR THE LARGE DREDGING COMPANIES WITH SUBSTANTIAL FOREIGN INVESTMENT AND FOR THE SMALL, MOSTLY MALAYSIA, CHINESE GRAVEL PUMP OPERATIONS. (SEE KUALA LUMPUR 8020).

4. THE MOST IMPORTANT EXAMPLE IS THE KUALA LANGGAT FIELD IN SOUTHERN SELANGOR STATE. IT IS THE LARGEST KNOWN UNMINED TIN

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FILED IN THE WORLD WITH A CAPACITY CONSERVATIVELY ESTIMATED AT 150,000 TONS OF TIN. A BRITISH DREDGING COMPANY FIRST INDICATED A SERIOUS INTEREST IN MINING THIS FIELD AS EARLY AS 1972 BUT WAS UNABLE TO OBTAIN THE RIGHTS FROM THE STATE GOVERNMENT. IN 1977, THE FEDERAL GOVERNMENT OWNED CORPORATION, PERTAS, OBTAINED A CONTROLLING INTEREST IN THIS COMPANY AND CONFIDENTLY SET FORTH TO REACH AGREEMENT WITH THE SELANGOR STATE GOVERNMENT ON THE LAND ISSUE. NOW, ALMOST EIGHTEEN MONTHS LATER, NO RESOLUTION IS YET IN SIGHT.

5. STATE LAND POLICIES HAVE ALSO BEEN IDENTIFIED AS ONE OF THE PRIMARY REASONS FOR THE SHARP DECLINE IN THE NUMBER OF GRAVEL PUMP OPERATIONS DESPITE RECORD TIN PRICES. GRAVEL PUMP OPERATIONS PRODUCED OVER 51 PERCENT OF MALAYSIA'S 1977 TIN PRODUCTION. FURTHERMORE, THEY PROVIDE, IN THE ABSENCE OF OTHER CONSTRAINTS, REAL SHORT-TERM FLEXIBILITY IN STARTING UP NEW PRODUCTION WHEN TIN PRICES INCREASE, THUS PROVIDING CONSIDERABLY MORE SUPPLY ELASTICITY THAN DREDGING OPERATIONS WHICH HAVE A START-UP TIME OF BETWEEN THREE AND FIVE YEARS.

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C O N F I D E N T I A L SECTION 2 OF 2 KUALA LUMPUR 8278

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6. OUR OBJECTIVE IN BILATERAL DISCUSSION WOULD BE TO ENCOURAGE THE GOM TO SEEK SOLUTIONS TO THESE GENUINELY TOUGH INTERNAL PROBLEMS BY EXPLORING SYMPATHETICALLY MEASURES THAT THE GOM MIGHT TAKE AND AT THE SAME TIME BY OFFERING SOME IDEA OF MEASURES WE WOULD BE WILLING TO TAKE TO MEET GOM CONCERNS IF TIN PRODUCTION IS CLEARLY SEEN TO BE RISING. WE BELIEVE, FOR EXAMPLE, THAT THE GOM MIGHT REALISTICALLY BE URGED TO TAKE SOME OR ALL OF THE FOLLOWING MEASURES (LISTED IN DESCENDING ORDER OF IMPORTANCE)

A. THE ACTIVE INVOLVEMENT OF EXISTING JOINT STATE-FEDERAL GOVERNMENT MINING COMMITTEES IN FINDING A LONG-TERM SOLUTION TO THE LAND QUESTION FOLLOWED BY SOME CONCRETE EVIDENCE THAT GRAVEL PUMP OPERATIONS AND DREDGING COMPANIES ARE NOT ENCOUNTERING UNDUE DIFFICULTIES IN OBTAINING NEW OR RENEWED LEASES;

B. SPEEDY AND FAVORABLE RESOLUTION OF THE STALLED NEGOTIATIONS BETWEEN SELANGOR AND THE MALAYSIAN MINING CORPORATION OVER KUALA LANGGAT;

C. A REASONABLE REDUCTION IN THE TAXES NOW IMPOSED ON THE INDUSTRY.

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AS WE HAVE SAID BEFORE, WE DO NOT BELIEVE THAT A TAX REDUCTION

WOULD NECESSARILY INCREASE PRODUCTION. NEVERTHELESS, TAKEN IN CONJUNCTION WITH PROGRAMS ON THE LAND QUESTION, IT WOULD SET THE FOUNDATION FOR HEALTHY AND VIABLE TIN INDUSTRY IN THE FUTURE. FINALLY, IT WOULD BE BENEFICIAL IF THE GOM COULD, AS PART OF THE PROCESS NECESSARY FOR DEALING WITH THESE POINTS, DEVELOP A COMPREHENSIVE NATIONAL MINING POLICY. THIS WOULD PROVIDE THE PRIVATE SECTOR WITH MUCH NEEDED ASSURANCES AS TO WHAT THE FUTURE RULES OF THE GAME WOULD BE AND GIVE CIVIL SERVANTS A CLEAR IDEA OF WHAT GOM POLICY IS.

7. ON OUR SIDE, WE MIGHTN, AS THE TACTICAL SITUATION DICTATES, EXPRESS WILLINGNESS TO SEE A COMBINATION OF MEASURES IMPLEMENTED, INCLUDING A RISE IN THE PRICE BAND, A COMMITMENT NOT TO ALLOW STOCKPILE DISPOSALS TO DRIVE THE PRICE BELOW A CERTAIN AGREED LEVEL WITH RESPECT TO THE PRICE BAND, AND PERHAPS ADOPTION OF A SEMI-AUTOMATIC MECHANISM FOR SETTING FUTURE PRICES.

8. WE RECOGNIZE, OF COURSE, THAT ANY RESULTS OF BILATERAL US-GOM DISCUSSIONS WOULD ULTIMATELY HAVE TO BE ENDORSED BY THE ITC, AND PERHAPS SIMILAR OR PARALLEL BILATERAL CONSULTATIONS SHOULD BE CARRIED OUT WITH OTHER PRINCIPAL PRODUCERS AND CONSUMERS. ADDRESSEE POSTS MAY WISH TO COMMENT. IN ANY EVENT, EVENT, IF THESE IDEAS HAVE ANY MERIT, WE SUGGEST THAT DEPUTY ASSISTANT SECRETARY BOSWORTH AS SENIOR DEPARTMENT OFFICIAL SUCH DISCUSSION HERE, AND POSSIBLY IN BANGKOK AND JAKARTA, WITH SENIOR POLICY-MAKERS IN THE RESPECTIVE LOCAL GOVERNMENT.

9. WE HAVE GIVEN THIS MESSAGE A STATUS OF DISCAPTION, BUT WOULD HAVE NO OBJECTION IF THE DEPARTMENT WISHES TO GIVE IT INTERAGENCY CONFIDENTIAL

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